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ABSTRACT

A study compared the compensation packages offered to private sector and Federal white-collar employees. The conclusions drawn in the study were based on data from previous and ongoing research conducted by the General Accounting Office (GAO). Analysis of these data revealed that whereas the Employment Cost Index has shown a cumulative increase of 65.5 percent for the third quarter of 1977 through the last quarter of 1984, Federal white-collar pay experienced a 44.5 percent cumulative increase. The civil service retirement system is the sole source of retirement income available from employees hired before January 1984. Retirement programs for persons in the private sector, on the other hand, typically consist of three parts: social security, a pension plan, and a capital accumulation plan. Private sector employees typically pay a greater portion of their medical insurance than do Federal workers; however, they are also reimbursed for a greater portion of their medical expenses as well. Private sector employees enjoy greater life insurance benefits than do Federal employees. With respect to holidays and sick leave, the Federal employees generally have one less holiday each year, a more generous annual leave, and less available sick leave than do their private sector counterparts. (MN)

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BY THE U.S. GENERAL ACCOUNTING OFFICE

Report To The Chairman, Subcommittee On Civil Service, Post Office, And General Services Committee On Governmental Affairs United States Senate

Comparison Of Federal And Private Sector Pay And Benefits

This report provides comparative information on pay, retirement benefits, health and life insurance, annual and sick leave, and holidays in the federal and private sectors.

Compensation programs in the two sectors consist of many elements that must be considered overall if meaningful conclusions on the comparability of compensation levels are to be made. Information GAO analyzed showed that some elements of the federal compensation program are superior but, overall, federal pay and benefits lag the private sector.

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GENERAL GOVERNMENT
DIVISION

B-218917

The Honorable Ted Stevens
Chairman, Subcommittee on Civil Service,
Post Office, and General Services
Committee on Governmental Affairs
United States Senate

Dear Mr. Chairman:

In response to your May 14, 1984, request, this report provides information on the differences between private sector and federal white-collar employees' compensation packages.

As arranged with your office, copies of this report are being sent to the Office of Management and Budget, the Office of Personnel Management, and other interested parties.

Sincerely yours,

W.J. Anderson

William J. Anderson
Director

Congress has been concerned that some groups question federal pay and benefits as being too generous while other groups contend that federal pay and benefits have not kept pace with those in the private sector.

GAO was requested by the Chairman of the Senate Committee on Governmental Affairs' Subcommittee on Civil Service, Post Office, and General Services to provide currently available information on private sector and federal white-collar employees' compensation packages. This report provides comparative information on pay, retirement benefits, health insurance, life insurance, annual leave, sick leave, and holidays.

BACKGROUND

Federal employees' pay is governed by the comparability principle--a statutory concept designed to assure employees and the nation's other taxpayers that federal salaries are equitable and comparable with pay for similar levels of work in the private sector. Unlike pay there is no statutory requirement to periodically compare and adjust employee benefits. Benefits are established and adjusted by legislative action on an ad hoc basis. (See pp. 1 to 2.)

By law, unless the President proposes alternative pay rates, federal white-collar employees' salaries are to be set at a level that makes their pay comparable with private sector salaries for similar levels of work as determined each year by the President's Pay Agent (the Directors of the Office of Management and Budget and the Office of Personnel Management and the Secretary of Labor).

Several studies have been conducted in recent years on individual components of the federal employee compensation package. Only one study, however, completed in 1984 by the Hay/Huggins Company for the House Committee on Post Office and Civil Service, provides current information on federal white-collar employees' overall compensation as compared to private sector employees. GAO did not validate data in the studies it analyzed.

RESULTS IN BRIEF

The Hay/Huggins study concluded that as of March 1, 1984, federal employees' total compensation

package lagged behind the private sector by 7.2 percent. Federal retirement and annual leave benefits were found to be more valuable than private sector programs while other federal benefits and white-collar employees' pay lagged behind the private sector. Since the federal pay increase for fiscal year 1985 was limited to less than the average increase in the private sector, Hay estimated that the overall difference between federal and private sector compensation had increased from 7.2 to 9 percent or more. (See p. 6.)

Compensation programs in the two sectors consist of several elements that must be considered overall if meaningful conclusions on the comparability of pay and benefits are to be made. For example, on the basis of information GAO gathered, if federal pay alone were made comparable to the private sector, overall federal compensation would be superior to the typical private sector program. On the other hand, if federal compensation elements that are more generous such as retirement were reduced, the current lag in overall federal compensation compared to the private sector would be increased. (See p. 18.)

GAO's ANALYSIS

Pay

Frequent Presidential use of alternative pay rates has dropped pay significantly behind that of the private sector. Since 1978, the President has consistently set pay using alternative pay rates which produced an increase less than that proposed by the Pay Agent. (See p. 9.)

The cumulative effect of the use of alternative pay rates during 1978 to 1984 was the primary factor in the Pay Agent's determination that an 18.28 percent increase was necessary for pay comparability for fiscal year 1985. The President, however, reduced the pay increase to 3.5 percent and that was delayed from October 1, 1984, until January 6, 1985.

A comparison of increases in federal white-collar pay with the Employment Cost Index, which includes all private sector white-collar workers' wages and salaries, shows that federal pay has increased more slowly than private sector pay.

October 1977 was the last time that federal employee pay was set at the level that the Pay

Agent's analysis showed would produce comparability. While the Employment Cost Index has a cumulative increase of 65.5 percent from the third quarter of 1977 through the last quarter of 1984, federal white-collar pay experienced a 44.5 percent cumulative increase. (See p. 8.)

Retirement Benefits

The civil service retirement system is the sole source of retirement income available from federal civilian employment for employees hired before January 1984. Retirement programs available to private sector employees, however, typically consist of three parts--social security, a pension plan, and a capital accumulation plan (thrift, profit sharing, stock ownership plans, etc.). (See p. 12.)

The Office of Personnel Management has determined that the civil service retirement system costs the government 27.9 percent of pay; a 1984 study by its contractor, Towers, Perrin, Forster and Crosby, found that the cost of private sector retirement programs averaged 18 percent of pay. The Hay/Huggins study found that the civil service retirement system is worth 24.7 percent of pay compared to 18.3 percent for the average private sector retirement program. The greater federal retirement cost occurs primarily because benefits are adjusted annually for increases in the Consumer Price Index and unreduced benefits are available to some employees at age 55. These features are not typically found in private sector pension plans.

Health Insurance

Studies done by GAO, William M. Mercer, Inc., and the Hay/Huggins Company indicate that private sector employers pay a greater share (usually all) of employee health insurance premiums than does the government. The studies showed that the typical private sector health insurance plan also reimburses more of employees' medical expenses, and calendar year deductibles are less than in federal government plans. (See p. 14.)

Life Insurance

Private sector life insurance programs provide more basic insurance coverage than does the government's Federal Employees Group Life Insurance Program. Studies by the Conference Board, the Bureau of Labor Statistics and Hay/Huggins reported that typical private sector plans provide basic insurance coverage at 2 times

pay; the government provides similar coverage but only to employees age 35 and under. Also, basic insurance coverage is typically provided at no cost to private sector employees, whereas federal employees pay two-thirds of the cost of their coverage.

Holidays, Annual, and Sick Leave

The Hay/Huggins study indicated that federal employees receive one less holiday than private sector employees, but this disadvantage is offset by more generous federal annual leave benefits. The private sector includes sick leave benefits as one element of disability income protection along with short- and long-term disability insurance programs. Hay indicated that federal sick leave lags the average private sector disability income plan by 0.7 percent of pay. (See p. 16.)

MATTERS FOR CONGRESSIONAL CONSIDERATION

In considering future changes and adjustments to elements of the federal compensation program, Congress may wish to make such decisions from the perspective of their effect on overall compensation levels. If such an approach is deemed appropriate, a mechanism for periodically measuring and assessing benefit program comparability will be necessary to complement the pay comparability process already required by law.

AGENCY COMMENTS

GAO did not obtain agency comments on this report.

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ABBREVIATIONS

BLS	Bureau of Labor Statistics
CPI	Consumer Price Index
ECI	Employment Cost Index
GAO	General Accounting Office
OPM	Office of Personnel Management

CHAPTER I

INTRODUCTION

In his request for this study, the Chairman of the Senate Committee on Governmental Affairs' Subcommittee on Civil Service, Post Office, and General Services expressed concern that

> "During the past several years, various groups have criticized federal compensation practices as being too generous to federal employees and too costly for the government. Conversely, other groups have contended that the federal compensation package has eroded to the extent that federal employee pay and benefits are less than comparable to the private sector."

The Federal Pay Comparability Act of 1970 established policies and procedures for determining annual pay adjustments for white-collar employees under statutory pay systems.[1] Under the act, unless the President and the Congress specifically decide otherwise, federal employees' pay is to be governed by the comparability principle--a concept designed to assure employees and the Nation's other taxpayers that federal salaries are equitable and comparable with pay for similar levels of work in the private sector. Compensation other than pay includes benefits such as retirement, health insurance, life insurance, annual leave, sick leave and holidays. There is neither a statutory policy to guide employee benefit determinations nor a systematic process for evaluating the extent of comparability between federal benefits and private sector benefits and adjusting federal benefit provisions. Benefits are established and adjusted by legislative action on an ad hoc basis.

PAY COMPARABILITY PROCESS

The concept of pay comparability for federal employees was adopted in 1962 with enactment of the Federal Salary Reform Act which declared that white-collar pay rates would be based on private sector rates for similar levels of work. The Federal Pay Comparability Act, enacted in 1970, transferred primary responsibility for adjusting pay rates for white-collar employees from the Congress to the executive branch--thus making it an administrative rather than a legislative task. A basic objective of the act was to establish a process that would provide annual comparability adjustments for employees under the statutory pay systems based on an annual survey comparing

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[1]These pay systems include General Schedule (white-collar) employees, Foreign Service employees, and certain employees of the Department of Medicine and Surgery, Veterans' Administration.

federal pay rates with rates of pay in the private sector for similar levels of work. The Senior Executive Service positions and other executive positions are not covered by the comparability process. Three principal groups were established by the act to carry out the comparability process--the President's Pay Agent, the Federal Employee's Pay Council, and the Advisory Committee on Federal Pay.

President's Pay Agent

The Director, Office of Personnel Management (OPM), the Director, Office of Management and Budget, and the Secretary of Labor jointly serve as the President's Pay Agent for making federal white-collar pay comparability determinations. The Department of Labor's Bureau of Labor Statistics (BLS) conducts an annual survey of professional, administrative, technical, and clerical pay rates in private industry which is used by the Pay Agent to make comparisons with the rates of pay for federal white-collar employees for the same levels of work. The Pay Agent specifies the geographic scope of the Bureau's salary survey, the industries to be studied, the minimum establishment size to be included, and the survey occupations.

Federal Employees Pay Council

The Federal Employees Pay Council consists of five members who are not employees of the federal government. The Pay Council is comprised of representatives of federal employee organizations which represent substantial numbers of employees under the statutory pay systems. No more than three members of the Pay Council can be from a single employee organization, council, federation, alliance, association, or affiliation of employee organizations. The Pay Council is to meet periodically with the Pay Agent and give its views and recommendations on the pay process and annual comparability adjustments.

Advisory Committee on Federal Pay

The Advisory Committee on Federal Pay is composed of three members who are not employees of the federal government. The three members are appointed by the President, and one member is designated to serve as chairman. Each member serves for a term of 6 years. The Advisory Committee's purpose is to provide the President with independent third-party advice on the pay proposals, considering the recommendations of the President's Pay Agent and the Federal Employees Pay Council.

OBJECTIVES, SCOPE, AND METHODOLOGY

We undertook our review at the request of the Chairman of the Senate Committee on Governmental Affair's Subcommittee on Civil Service, Post Office and General Services. The Chairman requested that we provide comparative information on private sector and federal white-collar employee compensation packages.

(See app. I.) In developing this information, we were asked to use existing data from our previous and ongoing work on federal compensation matters, as well as other currently available data. Therefore, we did not independently collect new information. The Subcommittee's office asked us to provide comparative information on the following compensation elements:

--pay;
--retirement (includes long-term disability benefits);
--life insurance;
--health insurance;
--annual leave;
--sick leave (includes short-term disability benefits); and
--holidays.

We identified approximately 60 studies subsequent to 1980 that included information on federal and/or private sector employees pay and/or the benefits discussed above. The scope of our work did not include secondary benefits such as employee discounts, free parking, personal use of employer-owned automobiles, etc. that many workers are also eligible to receive. The scope of the studies ranged from large to small companies. We did not verify the data in studies by others. We used data contained in appropriate studies as the source of comparative information on private sector compensation programs. These sources were as follows:

--The President's Pay Agent's annual reports for 1977 through 1984, Comparability of the Federal Statutory Pay Systems With Private Enterprise Pay Rates. These reports (1) compare the rates of pay of the statutory pay systems with the rates of pay for the same levels of work in private enterprise on the basis of annual surveys conducted by the Bureau of Labor Statistics; (2) make determinations of the adjustments in rates of pay necessary to maintain comparability with private sector pay; and (3) include the views and recommendations of the Federal Employees Pay Council and employee organizations not represented on the Council.

--Department of Labor's Bureau of Labor Statistics annual reports for 1977 through 1984, National Survey of Professional, Administrative, Technical, and Clerical Pay. These reports summarize the results of the Bureau's annual survey of selected professional, administrative, technical, and clerical occupations in private industry. The nationwide salary information is representative of establishments in a broad spectrum of industries throughout the United States, except Alaska and Hawaii.

--Department of Labor's Bureau of Labor Statistics August 1984 report, Employee Benefits in Medium and Large Firms, 1983. This report provides results of the 1983 Bureau of

Labor Statistics survey of the incidence and provisions of employee benefits in medium and large private firms. The survey provides data for 10.2 million full-time white-collar workers in establishments employing as few as 50, 100, or 250 full time employees, depending on the industry surveyed. It includes information on holidays, vacations, personal and sick leave, sickness and accident coverage, long-term disability, health and life insurance, and pension plans.

--Hay/Huggins Company, Study of Total Compensation in the Federal, State, and Private Sectors, (N.p.: Hay/Huggins Dec. 4, 1984). A number of studies have been completed that compared individual components of the federal employee compensation package, but only the Hay/Huggins study provides current information on federal white-collar employees overall compensation as compared to private sector employees. This study was conducted for the House Committee on Post Office and Civil Service. The report compares federal pay and benefits with those paid by the companies in Hay's private sector data base. Hay's data base includes information on pay rates in 1,249 medium (100 to 1,000 employees) and large (over 1,000 employees) companies and benefits data on 854 companies (size not specified). The Hay/Huggins Company is a management consulting firm specializing in private sector pay and benefits programs.

--U.S. General Accounting Office, Financial and Other Problems Facing the Federal Employees Health Insurance Program, (GAO/HRD-83-21, Feb. 28, 1983). This report compares the Federal Employees Health Benefits Program with private sector health insurance plans. It covers employee/employer contributions toward premium costs as well as the categories and levels of insurance protection provided to employees in both sectors.

--William M. Mercer, Incorporated, Review of Federal Employees Health Benefits Program, (New York: William M. Mercer, Incorporated, July, 1982). This study, done for the House Committee on Post Office and Civil Service, compares the major federal health plans to those sponsored by five large private sector employers. Specifically, it compares (1) reimbursement percentages to employees, (2) continuation of coverage benefits for employees leaving active service, and (3) employee contributions to the cost of medical benefits. William M. Mercer, Incorporated, a management consulting firm, studies the compensation programs of private and public employers.

--The Conference Board, Profile of Employee Benefits: 1981 Edition (New York: The Conference Board, 1981). This

report describes employee benefit practices as reported by 2,651 large companies in 7 broad types of business, and a sample of 432 small manufacturers. Information is presented about benefits for three employee groups: nonoffice employees, office and clerical employees, and managerial employees. The Conference Board is an independent, not-for-profit research institution which conducts scientific studies of management and economics.

--U.S. General Accounting Office, Features of Non-federal Retirement Programs (GAO/OCG-84-2, June 26, 1984). This report depicts the prevailing features of non-federal retirement programs as shown by selected studies and data bases. The primary source of information for the report was the Department of Labor's Bureau of Labor Statistics (BLS) report entitled Employee Benefits in Medium and Large Firms, 1982. A total of 976 pension plans were included in the BLS survey. Various other private sector studies were also used by GAO to confirm and supplement the BLS data.

--U.S. General Accounting Office, Benefit Levels of Nonfederal Retirement Programs (GAO/GGD-85-30, Feb. 26, 1985). This report supplements GAO's previous report--Features of Nonfederal Retirement Programs (GAO/GGD-84-2, June 26, 1984)--by estimating the levels of benefits at retirement that selected nonfederal programs provide to employees at various ages, years of service and salary levels.

--Office of Personnel Management's July 1981 paper, Total Compensation Comparability--Background, Method, Preliminary Results. This paper describes a pilot test of a benefits evaluation method for use in broadening the pay comparability system to include consideration of benefits as well as pay rates. Data collected during 1979 and 1980 was used in the pilot test.

Our work was performed during August 1984 through March 1985. As requested by the Chairman's office, we did not obtain agency comments on this report.

CHAPTER 2

COMPENSATION COMPARABILITY OF FEDERAL AND PRIVATE SECTOR WHITE-COLLAR EMPLOYEES

By law, the President is to compare salary levels for federal white-collar employees with private sector salaries for similar levels of work and either: (a) set federal pay equal to comparable private sector pay or (b) under certain specific conditions, set alternative pay rates. However, benefits are established and adjusted by legislative action on an ad hoc basis. Thus, the government does not systematically compare information on federal employees' overall compensation with that of their private sector counterparts.

CURRENT INFORMATION ON COMPARISON OF COMPENSATION ELEMENTS

The Hay/Huggins Company concluded that, as of March 1984, federal white-collar employees' retirement and annual leave benefits were superior to the benefits in the typical private sector program while federal pay and other benefits lagged behind, as shown below:

Element of compensation	Extent to which federal compensation is ahead (+) or behind (-) the private sector (as a percentage of payroll)
Pay	-10.3
Retirement	+ 6.4
Death benefits (life insurance)	- .3
Disability (sick leave included)	- .7
Health benefits	- 2.2
Executive perquisites	- 1.2
Annual leave	+ .8
Overall[a]	- 7.2

[a]Hay stated that because some benefits vary by salary, this (overall) percentage is not simply the sum of salary and benefits.

Hay estimated that the overall difference between federal and private sector compensation had increased from 7.2 to 9 percent or more because the federal fiscal year 1985 pay raise of 3.5 percent was less than the average increase in the private sector.

The fiscal year 1986 budget resolution passed by Congress included a one-year freeze on the pay of civilian employees. If the President's annual pay adjustment recommendation includes a pay freeze, it could result in the federal compensation package lagging further behind the private sector.

CHAPTER 3

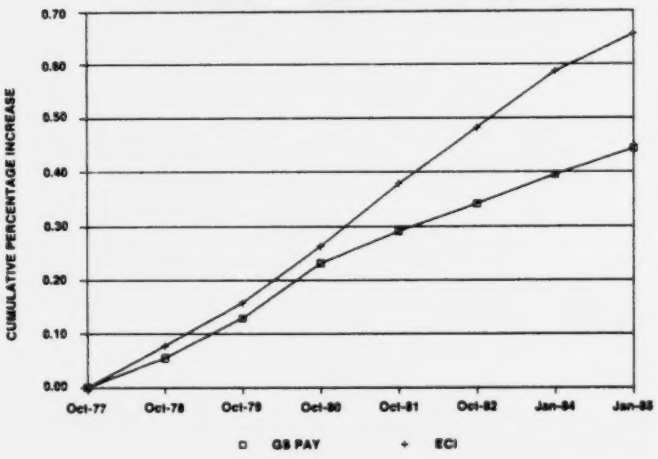
FEDERAL PAY INCREASES LAG PRIVATE SECTOR INCREASES

Determining comparability of federal pay with the private sector is very difficult and the results of the comparisons can vary depending on the methodology used. Using the job matching procedure prescribed by law, the Pay Agent determined that federal pay lagged the private sector by 18.28 percent in March, 1984. The Hay/Huggins Company used a point-factor evaluation method and found that federal pay was 10.3 percent behind the private sector at that time. (Hay's techniques are described more fully on p. 11 of this report.) Thus, different observers can make valid comparisons but reach different conclusions about comparability of federal pay.

Each year after 1977, actual pay adjustments granted to federal employees have been less than the President's Pay Agent's analysis showed was necessary to achieve comparability with the private sector. The cumulative effect of less than comparable increases during 1978 to 1984 was the primary factor in the Pay Agent's determination that an 18.28 percent pay increase was necessary to achieve comparability in fiscal year 1985. The President adjusted the pay increase to 3.5 percent--and that was delayed from October 1, 1984, until January 6, 1985.

A comparison of increases in federal white-collar pay with the Employment Cost Index (ECI), which includes all private sector white-collar worker's wages and salaries, shows that federal pay has increased more slowly than private sector pay. October 1977 was the last time federal employee pay was set at the level that the Pay Agent's analysis showed would produce comparability. While the ECI has increased 65.5 percent from the third quarter of 1977 through the last quarter of 1984, federal white-collar pay experienced a 44.5 percent increase, as shown by Figure 3.1.

FIGURE 3.1
GS PAY INCREASES COMPARED TO EMPLOYMENT COST INDEX



ANNUAL PAY ADJUSTMENTS HAVE BEEN LESS THAN PAY AGENT'S COMPARABILITY DETERMINATIONS

Frequent Presidential use of alternative pay rates has dropped pay significantly behind that of the private sector. Moreover, in 1983 and 1984, the President deferred the pay adjustments for 3 months (from October to the following January).

After considering the Pay Agent's comparability determinations and the views of the Advisory Committee on Federal Pay, the President can grant comparability adjustments with no action required by the Congress. Pay adjustments are to take effect in October of the applicable year. The law provides that, if warranted because of national emergency or economic conditions affecting the general welfare, the President can submit alternative rates of pay to the Congress. Although the law provides that the alternative pay rates may be defeated by a majority vote of either house, such "legislative vetoes" have been held unconstitutional.[2] Thus, to override the President's alternative pay rates, the Congress would have to enact legislation providing a different set of pay rates.

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[2]Immigration and Naturalization Service v. Chadha, 462 U.S. 919 (1983). We note that the President's authority to submit alternative pay rates has been challenged in litigation. AFGE v. Reagan, No. 83-1914 (D.D.C. filed Jul 1, 1983).

Fiscal year 1985 marked the seventh straight year that a President has proposed, and the Congress did not disapprove, alternative pay rates instead of granting the comparability adjustments indicated by the Pay Agent's analysis. For fiscal year 1985, the Pay Agent determined that an average 18.28 percent pay increase would be needed to close the gap that increasingly widened over the 7 years because of the use of alternative rates of pay. The tabulation following shows the cumulative effect that alternative rates of pay have had on federal white-collar pay rates:

Year[a]	Pay Agent's determination (average)	Prior years' gap (cumulative)	Difference: Pay Agent's determination less pay gap from prior years[b]	President's pay adjustment put into effect	Current year gap[c]
1977(Oct)	7.05	None	None	7.05	None
1978(Oct)	8.40	None	None	5.50	2.90
1979(Oct)	10.41	2.90	7.51	7.00	.51
1980(Oct)	13.46	3.41	10.05	9.10	.95
1981(Oct)	15.10	4.36	10.74	4.80	5.94
1982(Oct)	18.47	10.30	8.17	4.00	4.17
1984(Jan)	21.51	14.47	7.04	4.00	3.04
1985(Jan)	18.28[d]	17.51	.77	3.50	-

[a]Effective date of pay adjustment.

[b]Represents comparability adjustments that would have been necessary had there been no pay gap from prior years.

[c]Represents the current year's pay comparability gap had there been no gap carried forward from previous years.

[d]The Pay Agent made several changes to the comparability process in 1984, including the use of median instead of mean federal and private sector salaries for comparison purposes. OPM estimated the changes decreased the comparability amount for fiscal year 1985 from approximately 23.25 percent to 18.28 percent. More than half the change was due to the addition of a new administrative classification, Systems Analyst, to the BLS survey.

Beginning with the 1986 survey, the Pay Agent approved additional modifications to the pay comparability process. More private sector establishments with as few as 50 workers will be surveyed. The current survey largely excludes establishments of 250 and fewer employees. The 1987 survey will be expanded to

include industries not currently surveyed, establishments with as few as 20 workers, and state and local governments.[3]

HAY/HUGGINS PAY COMPARISON TECHNIQUES

The Hay/Huggins Company total compensation study concluded that federal pay lagged 10.3 percent behind the private sector as of March 1, 1984. The Hay report explained that the difference between its findings and the Pay Agent's was caused by the Hay methodology being markedly different from that employed in the BLS survey. Hay used the same pay comparison techniques it uses for its private sector work. First, Hay used its point-factor evaluation method to determine job comparability while BLS uses actual job matching. Hay stated that the point-factor evaluation method measures factors common to all jobs, rather than factors which depend upon the specific nature of a position--such as the duties performed. Second, Hay used the amount employers pay, on the average, for jobs with comparable evaluation points while the Pay Agent used the median pay of incumbents in jobs with the same duties. Hay therefore concluded there was no reason to expect its study to produce the same results as the BLS survey or to assume that the BLS survey results were wrong.

PAY AGENT'S DETERMINATIONS IN LINE WITH ECI

Each year the Pay Agent calculates the adjustments needed to achieve federal white-collar salary comparability with the private sector. Since 1977, the annual federal pay increases implied by the Pay Agent's calculations have corresponded closely with the changes in private sector white-collar workers' salaries as measured by the ECI. The ECI, which has a broader coverage than the BLS survey--43.7 million white-collar workers versus 10.3 million--provides a quarterly measure of the change in private sector wages and salaries. OMB has designated the ECI as a principal federal economic indicator. Less than a percentage point difference existed between the Pay Agent's findings and the change in the ECI for private sector white-collar workers' salaries over the 7-year period ending March 1984--the ECI had a cumulative increase of 65.65 percent while the Pay Agent's findings showed a 65.70 cumulative increase.

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[3]State and local government information cannot be used in the pay comparability process until enabling legislation is passed since the statute refers to "private enterprise pay rates."

CHAPTER 4

FEDERAL EMPLOYEES' BENEFITS PACKAGE AHEAD OF PRIVATE SECTOR

Various studies have shown that federal employees are ahead of private sector employees in retirement benefits but behind in health and life insurance benefits. The Hay/Huggins study found that, overall, federal benefits, as a percentage of federal pay, were 2.8 percent more valuable than benefits provided private sector employees as of March 1, 1984.

The primary benefits provided federal employees are retirement, health insurance, life insurance, annual leave, sick leave, and holiday pay. The government does not provide executive perquisites--such as employer-provided cars, deferred compensation and stock arrangements, etc.--to its employees that are commonly available to certain groups of private sector employees. Hay/Huggins valued executive perquisites for private sector employees at 1.2 percent of pay.

RETIREMENT

The civil service retirement system is, for federal civilian employees hired before January 1984, the sole source of retirement income from federal employment.[4] Retirement programs available to private sector employees, however, typically consist of three parts--social security, a pension plan, and a capital accumulation plan. Capital accumulation plans include thrift plans, profit sharing plans, stock ownership plans, etc. Some employers sponsor more than one type of capital accumulation plan.

OPM has determined that the civil service retirement system costs the government 27.9 percent of pay. A 1984 study done for OPM by the management consulting firm of Towers, Perrin, Forster, and Crosby[5] found that the cost of private sector retirement programs averaged 18 percent of pay.

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[4]Federal employees hired after December 1983 are covered by social security. By law (Public Law 98-168, dated November 29, 1983), a new retirement plan to supplement social security benefits for these employees must be in place no later than January 1, 1986. This new retirement plan had not been designed as of July 1985.

[5]Review of Non-federal Retirement Practices and Costs (Wash., D.C.: Towers, Perrin, Forster, and Crosby, Aug. 1984).

The Hay/Huggins study also found the cost of the civil service retirement system to be more than the cost of the average private sector program. Hay/Huggins estimated the civil service retirement system cost to be 24.7 percent of pay--Hay explained that the difference between the OPM figure is attributable to different actuarial assumptions--compared to 18.3 percent for the average private sector retirement program.

The studies discussed above, and others,[6] show that certain features of the civil service retirement system cause it to be more expensive than retirement plans in the private sector. The most important reason for the cost differences is that civil service retirement benefits are adjusted for increases in the cost of living, whereas fully indexed adjustments are generally not available in private sector pension plans. Another reason is that long-term federal employees (those with 30 or more years of service) can retire without a benefit reduction at age 55. In most private sector pension plans, benefits are reduced when employees retire before age 62.

Cost-of-living adjustments to pensions

Civil service retirement benefits are adjusted annually for the full increase in the Consumer Price Index (CPI). Similarly, the social security portion of private sector retirement programs is fully indexed. However, private sector pension plan adjustments for inflation are usually granted on an ad hoc basis. A study[7] conducted for the Department of Labor showed that during 1973 to 1979, private sector pension plans increased benefits on the average by 38 percent of the CPI. In plans with 10,000 or more participants, the average increase during the period was 57 percent of the CPI.

Retirement at age 55

Although federal employees can retire at age 55 with 30 years of service, most retire after age 60. Over the last 10 years the average retirement age has been 61 with 29 years of service. Private sector pension plans do not, as a rule, permit employees to retire with unreduced benefits before age 62. Our

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[6]Designing a Retirement System for Federal Workers Covered by Social Security (Congressional Research Service, Dec. 1984); President's Private Sector Survey of Cost Control, Report on Personnel Management (Spring - Fall 1983); and Analysis of Grace Commission Proposals to Change the Civil Service Retirement System (GAO/GGD-85-31, Feb. 13, 1985).

[7]Inflation and Pension Benefits (Department of Economics and Business, North Carolina State University, Aug. 1983).

report on features of nonfederal retirement programs[8] showed that most private sector pension plans permit employees to retire at age 55, but--as shown in our benefits report[9]--they usually required benefit reductions generally averaging between 2 and 4 percent for each year the retiree is under age 62. Some private sector plans, however, allow employees who work 30 years or more to retire with full benefits at any age. A study[10] conducted by BLS of retirement plans covering about 16 million private sector employees showed that 16 percent were in plans that allowed retirement at any age if the employees had 30 years of service.

HEALTH INSURANCE

The Federal Employees Health Benefits Program was enacted in 1959 with the intent that it provide benefits for federal employees comparable to those provided by large private sector businesses. However, studies done by GAO and others, as discussed below, showed that private sector employers contributed a greater share (usually all) of the health insurance premiums than did the federal government. The Hay/Huggins study found that federal health insurance benefits were 2.2 percent of pay behind private sector benefits.

A 1982 federal employee health program study done by the management consulting firm of William M. Mercer, Incorporated,[11] found the government's premium contribution to be less than that contributed by private employers. For the six major federal health insurance plans, which cover approximately 80 percent of all employees, Mercer found government contributions represented 57 percent of the total premium. In contrast, Mercer said that private sector employers generally paid all or a major portion of the total premium for employees.

The Mercer study indicated that, on the average, the government's largest health insurance plans reimbursed approximately 73 percent of federal employees' medical expenses. According to Mercer, the average private sector plan reimbursed 82 percent of medical expenses. Mercer also found that private sector employees' medical coverage was subject to

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[8]Features of Nonfederal Retirement Programs (GAO/OCG-84-2, June 26, 1984).

[9]Benefit Levels of Nonfederal Retirement Programs (GAO/GGD-85-30, Feb. 26, 1985).

[10]Employee Benefits in Medium and Large Firms, 1983 (Bureau of Labor Statistics Bulletin 2213, Aug. 1984).

[11]Review of Federal Employees Health Benefits Program (N.p.; William M. Mercer, Incorporated, July, 1982).

a calendar year deductible of $100 or less. In contrast, all of the federal government plans other than the Health Maintenance Organization Plans had deductibles in excess of $100.

In 1983, we issued a report on the Federal Employees Health Benefits Program[12] which also showed that private sector employers pay a greater share of employee health insurance premiums than does the government. Our study showed that the government contributed an average of 64 percent of health insurance premiums for employees' benefits and an average of 58 percent of the premiums for dependent coverage. Comparatively, at least 90 percent of the private sector employers studied contributed more than the government for employee health benefits; 68 percent paid the entire premium cost. For dependent coverage, at least 78 percent contributed more than the government; 40 percent paid the entire premium cost.

The Hay/Huggins study compared the plan then elected by most federal employees--the high option service benefit plan administered by Blue Cross/Blue Shield--with private sector plans. It found that the government pays approximately 60 percent of the premium for both employees and dependents under this plan. In the private sector, Hay said two-thirds of the employers pay for employee coverage in full and 39 percent pay for dependent coverage in full. Hay also found that, except for significant dental coverage, the Blue Cross/Blue Shield plan covers the same type of hospital, medical and prescription drug expenses as does the typical private sector plan. However, it noted that the Blue Cross/Blue Shield employee deductible was $200 versus $100 for the typical private sector plan.

On June 21, 1983, OPM submitted a legislative proposal to Congress to restructure the Federal Employees Health Benefits Program through the use of a voucher system to strengthen financial control over the program and enhance competition among participating health plans. Under the voucher system, OPM proposed that if an enrollee elects a less comprehensive plan with a premium cost below the available government contribution, the enrollee would be entitled to receive the difference not to exceed 40 percent of the government contribution. This proposal was the result of an OPM initiative and not supported by a comparison with practices in private sector health benefits programs.

LIFE INSURANCE

The Federal Employees Group Life Insurance Program provides federal employees the opportunity to obtain group life insurance. However, private sector employers' life insurance

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[12] Financial and Other Problems Facing the Federal Employees Health Insurance Program (GAO/HRD-83-21, Feb. 28, 1983).

programs provide more insurance coverage at less cost to employees than the federal program.

The Hay/Huggins study indicated the value of the federal life insurance program is 0.3 percent of pay less than private sector plans. It found that basic group life insurance coverage of twice annual salary is most commonly provided in the private sector. Research done by the Conference Board[13] and the Bureau of Labor Statistics[14] also found coverage to be commonly provided at twice annual salary. Under the FEGLI program, employees receive basic coverage in amounts that vary by age. Employees under age 36 are eligible for basic insurance coverage in an amount equal to their annual basic pay rounded to the next higher thousand dollars plus $2,000, multiplied by 2. Beginning at age 36, the coverage amount decreases each year until it reaches 1.0 times annual basic pay plus $2,000 at age 45 and thereafter.

The Hay/Huggins study indicated that private sector basic group life insurance plans are typically provided at no cost to the employee. Similar conclusions were reached in the other studies mentioned above. Under the federal program, employees pay two-thirds of the cost of the basic insurance coverage (the federal government pays one-third).

ANNUAL LEAVE, SICK LEAVE, AND HOLIDAYS

Our review identified no studies that individually compared federal and private sector holidays, annual leave and sick leave benefits. However, the Hay/Huggins study analyzed these benefits on a collective basis. Hay concluded that federal employees' holiday and vacation benefits are 0.8 percent of pay more valuable than similar benefits provided to private sector employees. The private sector includes sick leave benefits as one of the elements of disability income protection. Hay/Huggins indicated that the government lags the average private sector disability income plan by 0.7 percent of pay.

The Hay/Huggins study noted that the federal government grants its employees nine paid holidays each year[15] versus an average of 10.2 in the private sector. Studies made by the

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[13] Profile of Employee Benefits: 1981 Edition (New York: The Conference Board, 1981).

[14] Employee Benefits in Medium and Large Firms, 1983 (Bureau of Labor Statistics Bulletin 2213, Aug. 1984).

[15] The birthday of Martin Luther King, Jr., becomes a national holiday the third Monday of every January beginning in 1986.

Conference Board[16] and the Bureau of Labor Statistics[17] also indicate that private sector employers provide an average of 10 holidays a year. The Hay/Huggins study found, however, that the private sector holiday advantage is offset by more generous annual leave benefits for short service federal employees.

The BLS study reported that the average number of days of paid vacation provided private sector employees each year was: 8.7 days at one year of service, 10.3 days at 3 years of service, 18.2 days at 15 years of service, and 20.5 days at 20 years of service. Federal employees, on the other hand, accrue annual leave as follows: 13 days a year for the first 3 years of service, 20 days between 3 and 15 years' service, and 26 days after 15 years' service.

However, federal employees' annual leave covers both vacations and personal time off. The BLS and Conference Board studies each indicated that private sector employees receive up to 5 days of personal leave a year in addition to vacation benefits--a factor which could eliminate the federal annual leave advantages noted above.

The Hay/Huggins study, BLS study, and Conference Board report all indicated that private sector employers provide some combination of sick leave, accident and sickness insurance, and short-term disability plans to cover employee absences caused by illness or injuries. Chronic disability cases are covered by long-term disability plans in the private sector. Federal employees must rely on sick leave alone for short-term illnesses and the disability provisions of the civil service retirement system for long-term disability benefits.

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[16] Profile of Employee Benefits: 1981 Edition, cited earlier.

[17] Employee Benefits in Medium and Large Firms, 1983 (Bureau of Labor Statistics Bulletin 2213, Aug. 1984).

CHAPTER 5

CONCLUSIONS AND MATTERS FOR CONGRESSIONAL CONSIDERATION

Federal and private sector compensation programs consist of many elements that must be considered overall if meaningful conclusions on the comparability of pay and benefits in the two sectors are to be made. The studies we reviewed suggest that federal employees' overall compensation lags behind the private sector.

Our work indicates that consideration of any individual compensation element in isolation can be meaningless insofar as judgments on overall compensation levels are concerned. For example, the evidence presented in this report suggests that federal pay rates lag considerably behind pay rates for comparable jobs in the private sector. However, if a pay raise were granted in the full amount determined by the Pay Agent to be necessary to achieve pay comparability, the overall federal compensation program would be superior to the typical private sector program. Reduction in retirement benefits, the one element of compensation in which the federal government is clearly ahead of the private sector, would drop the overall federal compensation level further behind the private sector, unless there were offsetting improvements in other elements.

MATTERS FOR CONGRESSIONAL CONSIDERATION

In considering future changes and adjustments to elements of the federal compensation program, the Congress may wish to make such decisions from the perspective of their effect on overall compensation levels. If such an approach is deemed appropriate, a mechanism for periodically measuring and assessing benefit program comparability will be necessary to complement the pay comparability process already required by law.

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United States Senate
COMMITTEE ON
GOVERNMENTAL AFFAIRS
SUBCOMMITTEE ON
CIVIL SERVICE, POST OFFICE, AND
GENERAL SERVICES
WASHINGTON, D.C. 20510

May 14, 1984

The Honorable Charles A. Bowsher
Comptroller General
U.S. General Accounting Office
441 G Street, N.W.
Washington, D.C. 20548

Dear Mr. Bowsher:

During the past several years, various groups have criticized federal compensation practices as being too generous to federal employees and too costly for the government. Conversely, other groups have contended that the federal compensation package has eroded to the extent that federal employee pay and benefits are less than comparable to the private sector.

Because of this debate over public and private compensation, the Subcommittee on Civil Service, Post Office, and General Services requests that your office provide a comparison of the differences between the private sector and public sector total compensation packages, including: pay, retirement, health insurance, annual/sick leave, and life insurance. In providing this comparison GAO should use existing data from its previous and ongoing studies, as well as other currently available data.

Thank you for your assistance in this matter. If you have any questions, please contact Mr. Jamie Cowen or Mr. Jeff Landry of my staff at 224-2254.

With best wishes,

Cordially,

TED STEVENS
Chairman

(966190)